



## COUNCILMEMBER CARL DeMAIO

FIFTH DISTRICT

CITY OF SAN DIEGO

### MEMORANDUM

DATE: October 19, 2009

TO: Jan Goldsmith, City Attorney

FROM: Councilmember Carl DeMaio *Carl DeMaio*

RE: CCDC "Pick-Up" of Convention Center Debt Service

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On March 10, 2009, the City Council and Redevelopment Agency in a joint public hearing made a series of findings that allowed the Agency (via CCDC) to absorb the cost of annual debt service for Petco Park. This decision transferred the annual \$11.3 million debt service obligation for Petco Park bonds to CCDC through FY 2013.

In addition to Petco Park debt service, the city currently contributes approximately \$9.2 million annually toward the debt service for the Phase 2 expansion of the Convention Center. In FY 2015, this obligation increases to \$13.7 million, as the Unified Port of San Diego's \$4.5 million contribution toward this debt service is scheduled to expire.

As part of my efforts to restore the financial health of the city, I have proposed that available CCDC funds currently allocated for building a new Downtown Library (amounting to \$63 million) be reprogrammed toward Convention Center annual debt service (see attached memo).

I recognize that in order to generate General Fund savings as I have proposed, the city would need to make findings that a corresponding amount of current General Fund expenditure on public safety and infrastructure is promotional in nature, thus allowing restricted TOT revenues to be used, and having the net effect of creating General Fund savings.

I request that your office advise the City Council as to the city's ability to transfer this obligation from TOT revenue (the current practice) to CCDC in a fashion analogous to Petco Park debt service, as well as any actions or findings required to do so.



## COUNCILMEMBER CARL DeMAIO

FIFTH DISTRICT

CITY OF SAN DIEGO

### MEMORANDUM

DATE: October 19, 2009

TO: Mayor Jerry Sanders  
City Councilmembers

FROM: Councilmember Carl DeMaio *Carl DeMaio*

RE: Shelving the Downtown Library Project Will Save \$63 Million in the General Fund

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Supporters of the proposed new Downtown Library have argued that no General Fund impact occurs if the city proceeds with the project – and that funds pledged for the project cannot be redirected to benefit the city's General Fund.

The following proposals could provide up to **\$63 Million in General Fund savings over the next 5 years provided that the city shelves the Downtown Library project.**

As outlined in the financing plan for the Downtown Library, \$80 million of funds from the Center City Development Corporation (CCDC) will be used to finance construction. Of this amount, \$17 million has already been spent – leaving a balance of \$63 million.

CCDC's planned contribution to the Downtown Library **can be reprogrammed to projects currently supported by the General Fund** – thus providing much-needed General Fund savings to help balance the budget.

#### ***Petco Park Debt Service***

As you are aware, for the past five years Councilmember Donna Frye and I have advanced a proposal to transfer debt service for Petco Park from the General Fund to the Center City Development Corporation. We argue that Petco Park is not a General Fund obligation, but rather a redevelopment project that has served as a catalyst for downtown redevelopment.

This year the Mayor and City Council took action on our proposal by committing to a partial repayment program whereby five years of Petco Park debt service would be

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assumed by CCDC – saving the General Fund \$56.5 million over five years (FY 2009 – FY 2013).

Unfortunately, Petco Park debt service reverts to the General Fund starting in FY 2014 – therefore increasing the budget deficit by \$11.3 million per year in the last two years of the Five Year Financial Forecast.

**Proposed Action:**

Unspent redevelopment funds currently earmarked for the Downtown Library project could be redirected, extending CCDC's payment of Petco Park debt service for FY 2014 and FY 2015.

**GENERAL FUND SAVINGS: (\$22.6 million)**

<b><i>Convention Center Debt Service</i></b>
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Petco Park is not the only asset in the CCDC redevelopment area that currently is being subsidized by the General Fund. Transient Occupancy Tax (TOT) revenue pays for approximately \$9.2 million in debt service for Phase 2 of the Convention Center – and provides an effective annual operating subsidy of the facility of approximately \$4 million.

Like Petco Park, the Convention Center arguably has had a significant impact on stimulating redevelopment within the CCDC project area.

Assuming the same mechanism used to transfer Petco Park debt service can be used, the city should explore using Downtown Library project funding for Phase 2 debt service to alleviate the burden on the General Fund.

**Proposed Action:**

Pending City Attorney approval, CCDC should be able to assume at least \$9.2 million in debt service for Phase 2 of the Convention Center in FY 2011, FY 2012 and FY 2013, plus \$2.8 million toward the FY 2014 debt service payment - providing a cumulative savings to the Five Year Financial Forecast of \$30.4 million.

If the city chose, it could apply these savings in a variety of different ways, including offsetting the increased debt service payment (\$13.7 million) in FY 2015 resulting from the scheduled expiration of the Port of San Diego's \$4.5 million contribution toward the annual Convention Center debt obligation.

In order to effectively generate these savings, an equal amount of current General Fund expenditures may require classification as promotion-related expenditures, allowing for

the use of restricted TOT revenue. Such expenditures should be identified to allow the savings to materialize.

**GENERAL FUND SAVINGS: (\$30.4 million)**

***Acceleration of CDBG Repayment from CCDC – Backfill for ADA Projects***

Repayment of Community Development Block Grant monies could be accelerated – providing a partial backfill for \$10 million in General Fund ADA projects that are currently financed with asset sale monies. Every dollar from the Downtown Library project transferred in this manner also constitutes savings to the General Fund, as asset sale revenue would be freed up for other General Fund capital expenses.

**GENERAL FUND SAVINGS: (Up to \$10 million)**

***Risk of Negative Impacts to the General Fund with New Downtown Library***

In addition to positive General Fund savings achieved with shelving the Downtown Library project, there are also two negative impacts to the General Fund posed by the new Downtown Library.

First, should private philanthropy fall short of fundraising goals, the General Fund will be on the hook for any and all shortfalls and cost over-runs in building the new Downtown Library.

Second, the operations and maintenance costs of the new Downtown Library have been documented as significantly higher than the current facility – and would only be paid for through the General Fund.

The notion that additional operating costs for this new facility will be negated by \$2 million per year (for only the first five years) in donations is a risky assumption. However, assuming that the promised donations actually materialize, previous evidence suggests that operating cost increases for the new facility will total approximately \$5.7 million per year.<sup>1</sup> The variance in estimates suggests that either the city's General Fund must make up the \$3.7 million difference, or the city will open a new facility it cannot afford to adequately operate.

**GENERAL FUND LOSS: TBD and up to \$3.7 million per year**

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<sup>1</sup> IBA Report 09-2: "Review of Five-Year Financial Outlook and Budget Balancing Scenarios"

***CONCLUSION: New Downtown Library Significantly Impacts General Fund***

The potential savings available from abandoning the Downtown Library project display the inaccuracy of the notion that the project has “no impact to the General Fund.” The facts are clear: canceling the Downtown Library **provides immediate funds to help close the General Fund budget deficit** – and will take pressure off branch libraries that might see cuts and closures in this tough budget year.

If redevelopment funds proposed for the Downtown Library are redirected to pay for outstanding debt already associated with downtown projects, the General Fund could, in fact, benefit. The city’s obligations for Petco Park and Convention Center expansion debt service total \$73.1 million over the timeline covered by the Outlook, FY 2011 – FY 2015. The city could choose to reduce this amount by the entire \$63 million available for reprogramming, or choose to realize savings more immediately by using accelerated CDBG loan repayment funds to free up asset sale proceeds for other General Fund capital expenses.

It is fiscally responsible to fully scrutinize the impacts such a project would have on the city’s budget in any economy, but it is fiscally imperative to do so now. The city faces an unprecedented deficit of \$200 plus million before fully accounting for liabilities such as retiree health care. Funding currently slated for the Downtown Library project can either help solve this budget crisis or add to it. I urge my colleagues to take into account the potential General Fund savings that could be realized before proceeding forward.

CC: Jan Goldsmith, City Attorney  
Andrea Tevlin, Independent Budget Analyst